sense

90th consecutive issue
in a series of periodicals
devoted to strategic
communications issues
affecting top management

90

Corporate Identity As a Marketing Tool

D. Wayne Calloway
Chairman and Chief Executive Officer
Pepsico, Inc.

David T. Kearns
Chairman and Chief Executive Officer
Xerox Corporation

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Merrill Lynch & Co., Inc.

Lippincott & Margulies Inc

Lippincott & Margulies Inc, founded in 1945, is the pioneer identity management consulting firm. Through its work for more than 2,500 corporations worldwide, the company has developed the process of creating proprietary identities for corporate entities, retail establishments and product brand lines in every major industry sector.

Consultants at Lippincott & Margulies represent diverse fields of expertise and are highly specialized in all phases of identity management, including: communications analysis and strategic planning; visual identification systems; name development and nomenclature systems; trademarks; marketing and communications program development.

At Lippincott & Margulies, we define corporate identity as the sum total of a business's communications, not just with shareholders or customers or employees, but with all of its audiences. In this sense, every company —whether it sells aspirin or bonds, xylophones or zithers—has a common mission: to create the best possible perceptions among its key audiences. Never before has business had such a wide range of tools to accomplish this objective. Particularly powerful—but frequently underrated—is the practice of leveraging a favorable corporate image to support its marketing efforts.

In this 90th issue of Sense, we focus on the single aspect of using corporate identity as a marketing tool. Three leading business executives discuss the relationship between their companies' identities and the marketing of their products and services.

As might be expected from firms like Xerox Corporation, Merrill Lynch and Co., Inc., and PepsiCo, Inc.—firms that occupy unique and distinct positions in their respective industries—the role and relative importance of corporate identity as a marketing tool depends on overall corporate strategy.

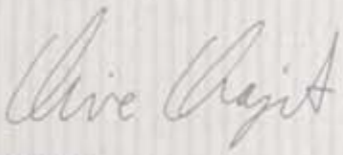
For William A. Schreyer, Merrill Lynch's Chairman and CEO, "the strength of a corporate identity has a direct effect on how well we can market our products and services to our customer base."

With his company's totally different market orientation—toward such strong consumer brand names as PepsiCola, Pizza Hut and Frito-Lay—PepsiCo, Inc.'s Chairman and CEO D. Wayne Calloway naturally has a totally different focus on corporate identity. For him, it is a communications platform for addressing and influencing such key audiences as shareholders and government officials.

Xerox's Chairman and CEO David T. Kearns shows how a strong corporate identity can carry a firm through tough times; but that ultimately, customers, dealers and distributors must have confidence in the level and quality of service symbolized and actually delivered by the company.

To round out the subject, we have also included the corporate identity models of three other major corporations: Primerica, Chrysler and NYNEX. Each illustrates how entirely different communications structures support varied strategic goals of both parent and subsidiary business units.

I invite your comments, suggestions and inquiries about the content of Sense 90, and discussion about any aspect of the corporate identity discipline as practiced by Lippincott & Margulies.



Chairman
Chief Executive Officer

sense

How PepsiCo keeps its corporate identity distinct from its brands.

Corporate Identity As a Marketing Tool

How Xerox is copying its reputation to market new and different products and services.

How The Bull signifies Merrill Lynch's strength from corporate mission to symbol.

"...We focus on strong brand names... the satisfaction is in the product, not the corporate identity...We market Pepsi with a youthful, feisty, aggressive advertising campaign... so instead of the corporate image working its way down, in this case the brand image works its way up..."

—D. Wayne Calloway

PEPSICO

How important is the perception of your company and its corporate identity in the marketing of your products?

We don't think corporate identity as such has been a major marketing tool for us. Instead, we focus on our strong brand names. Names such as Pepsi-Cola in soft drinks; Frito-Lay and its line of snack foods; and Kentucky Fried Chicken, Pizza Hut and Taco Bell in quick service restaurants. We believe that concentrating on promoting our brand names is our best investment.

It's likely that most buyers of Frito-Lay snacks and customers at those restaurants don't even know that PepsiCo is the parent company. Isn't that a negative?

I don't think so. They come into Pizza Hut, for example, because that's the finest quality pizza they can buy. The satisfaction is in the product, not the corporate identity. It's a big brand name and we spend a lot of money on it. The same with the others.

In Pepsi-Cola, you have one of the best known and most heavily advertised brand names around. Does it rub off on the corporate image of the parent company, PepsiCo, Inc.?

Of course, and we think in a very positive way. We market Pepsi with a youthful, feisty, aggressive advertising campaign, and we don't mind that kind of image as a company. So instead of the corporate image working its way down, in this case the brand image works its way up. I don't think telling people that PepsiCo is a wonderful corporation that also owns a lot of other wonderful companies would help us sell any more Diet Pepsi or Mountain Dew or Doritos.

Have you ever thought of changing the name Frito-Lay to get Pepsi in?

No, it was never seriously considered. Where we have brands with billions of dollars in sales and hundreds of millions in advertising, it's not necessary to include the corporate name. Those brands can stand on their own. But if you're a company with a lot of $20 million brands you might need help from a corporate umbrella. Another area might be where you're making very expensive products, such as a car or a refrigerator, rather than a small-ticket quickly-consumed item, such as a bag of potato chips or a bottle of soda. When you're making a big investment that you expect to last for years, having G.E.'s quality, or Sony's, standing behind it may be important.

How does that relate to the sale of your products?

If I didn't like the taste of Pepsi, or if it changed, I wouldn't have to wait until I traded in the car. I would make a new decision the next time I went to the supermarket. And that decision wouldn't be affected by whether I preferred Kentucky Fried Chicken or Church's Fried Chicken.

What about the need to impart an image of quality to less-expensive disposable products?

That's very important to us. Even though we sell low-ticket items, all of our products are in premium prices within their categories. For example, Pepsi is more expensive than private label soft drinks; Pizza Hut is surely at the premium end, and Frito-Lay snacks may be 10 to 15 percent higher than others. The consumer gets good price value, but we're not the low-cost item. We sell quality in every case. That's why our concentration on brand image is especially important.

Your youth-oriented approach is obviously based on consumption patterns. But what about a population that's growing older?

Our products are popular with all age groups, but teenagers and young adults tend to be the biggest consumers of soft drinks and snack foods. However, as this generation ages, our growth rate shows no signs of slackening. In fact, sales of our products continue to rise. The reason is that consumers are taking their food and beverage habits with them as they age. So our basic strategy is to sustain our growth by remaining contemporary and competitive, while also segmenting the market to reach more people with more products. We try to build our business by developing line extensions of existing products. That's a low-risk and very profitable way to grow.

You are a company with three roughly equal components—soft drinks, snack foods and restaurants. Wouldn't a more generic name than PepsiCo be more appropriate?

It might. But we're happy with who we are. We're contemporary, we're young, we're the underdog, we're scrappy, we're Michael Jackson and Tina Turner and Lionel Ritchie. We sell a lot of products, more than $11 billion worth last year. Not every one of our advertising figures might be the right corporate spokesman on Wall Street, but they're terrific in selling Pepsi and other products around the world. We get the message to Wall Street and to investors and shareholders in other ways, and they like our sales and profit figures.

What about other constituencies?

That's an interesting point. There's one audience that we want to make sure understands the total size and scope of our operations: the elected officials in Washington. So the one letterhead that carries all five of our logos is our government stationery. That's an area where strong brand identification really does mean something.

" The identity of the corporation and the strength of its image are very important at every level of the sales effort, whether you have your own sales force or use a network of dealers, distributors and agents. "

—David T. Kearns

XEROX

How important is the perception of Xerox, the company, in the marketing of your products and services?

The name Xerox has a very high value, and it is well-earned. But for several years—in the late Seventies when our products became less competitive and the early Eighties when we were restructuring—we found out how important it really was. When you have a good product and you're satisfying your customers, the name produces an almost geometric impact. But if you begin to live off the old image, you can get into trouble.

The Xerox name carried us through some tough times. But the strength of that name was no accident. In addition to an exciting product and our technological leadership in the early years of the company, the Xerox image was carefully nurtured. The idea of a socially conscious company didn't just happen. As Xerox began to make money, it put some back into the community. The saying was you've got to do well to do good. It was part of the corporate strategy and the corporate culture. Support of such things as quality television helped enhance the early image of the company and made it seem bigger than it actually was.

Now that we've driven costs down and the quality of our products back up, and added an extensive range of financial services, we're ready to reach new heights under the Xerox name.

Can a good corporate image support a weak product?

For only a short period of time. And it's dangerous. You may be getting sales, but your customers can start drifting away without telling you why. The customer you have the least knowledge about is the one who never complains, but simply walks away. A good image can pull you through for a while, but to survive you have to understand what's wrong and fix it. That's why we put so much emphasis these days on quality, product reliability and cost.

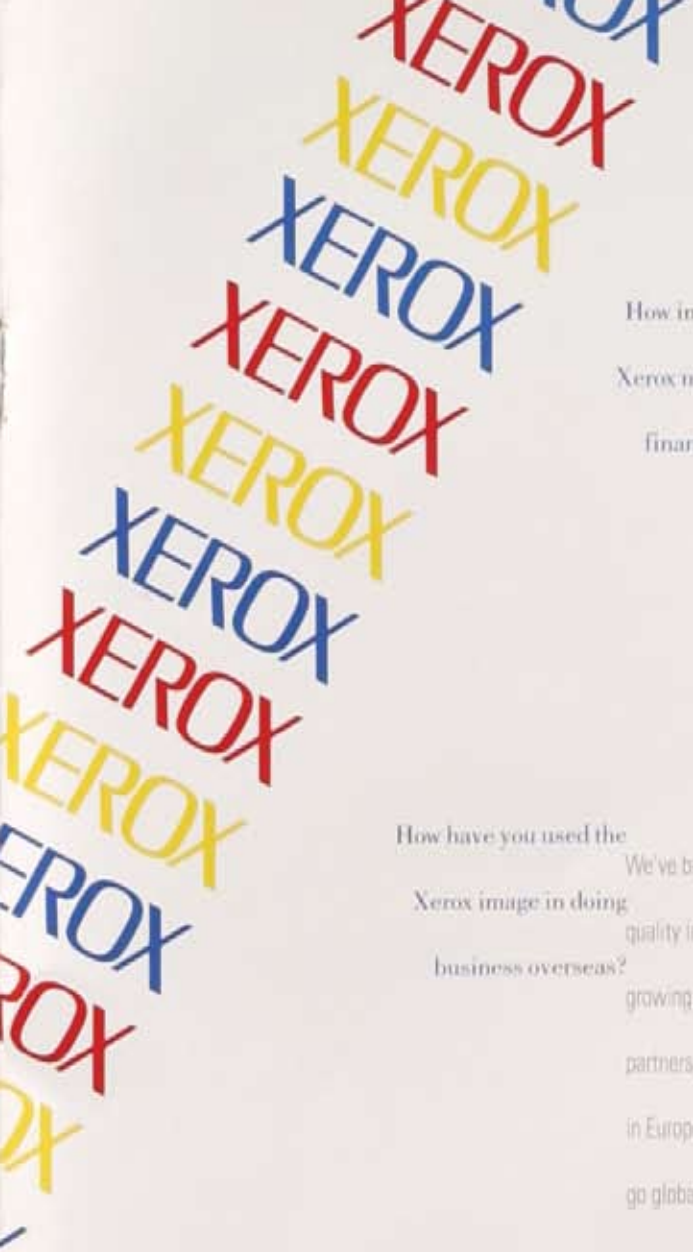
Is your corporate image primarily product-related?

Not by a long shot. Our basic focus is customer-oriented. Our description of quality at Xerox is meeting the customer's requirements and satisfying them 100 percent of the time. We want our customers to perceive us as providing quality products and services, and the measurement of that is, do we meet their requirements? We believe customer satisfaction will enable us to meet our goals of improved return on assets and increased market share.

What's the role of the corporate image in selling such disparate things as office products and systems and financial services?

First, the identity of the corporation and the strength of its image are very important at every level of the sales effort, whether you have your own sales force or use a network of dealers, distributors and agents. They need to have confidence in the name itself and in the kind of support you will give them, including advertising and service. A good image also helps you recruit good people, especially young people coming out of college who want to join a company they respect.

As far as those two diverse areas, it's surprising how much our basic credo of meeting the customer's requirements applies to financial services as well. We're careful not to try to impose an office equipment mentality on that business. But when we talk quality, we all mean the same thing.



How important is the Xerox name in selling financial services?

Whether or not one of our financial services units uses Xerox in its name, it's clearly identified as a Xerox Financial Services company. Some of them have well-established names in their fields—Crum and Forster in property and casualty insurance, Van Kampen Merritt in fixed-income investment banking, and Furman Selz in equity research, sales and trading—and those names have high value to us. Then we have Xerox Credit and Xerox Financial Services Life Insurance, both of which we started and use our name right up front. We work very hard at balancing the names and the corporate identity.

How have you used the Xerox image in doing business overseas?

We've been worldwide for a long time and that's been very important to our growth. Our quality image enabled us to get top-quality partners, which we needed because Xerox was growing so fast in the United States that it had used up its financial capacity. We wanted partners with good names, the capital and the productive capacity in place, such as—Rank in Europe and Fuji in Japan. As a relatively small company in those days, Xerox was able to go global very quickly and develop its worldwide image.

Is there a lesson there for other companies wanting to develop their overseas population?

I would recommend partnerships as a means of enhancing their ability to do business in other countries. Those partnerships must be based on mutual trust and understanding more than on legal documents. The other thing is get in early. Pick a few countries that could be strategically important for you and get going. And get nationals of those countries in place to start running those businesses as soon as you can.

How broadly can a corporate name be used to embrace new products?

Well, we're doing it with financial services. But there are obviously limits. I can't imagine a Xerox Cola, for example. But I would like to think—and this is hypothetical—that if we reach the level of quality we're striving for, anytime someone started thinking about a quality company to develop and market an exciting new technological product, they would automatically turn to Xerox. Meantime, our watchword is leadership through quality.

"As a marketing-oriented company, we believe that the strength of a corporate identity has a direct effect on how well we can market our products and services to our customer base."

—William A. Schreyer

Merrill Lynch

How important is the perception of your corporate identity in the marketing of your products and services?

It goes back to the days of Charlie Merrill in the mid-Thirties and his strategy of taking Wall Street to Main Street. His whole emphasis was on the identity of the firm, what it stood for and what made Merrill Lynch different. His first commandment was that the customer's interest must come first. We've built on that tradition of trust, and it has been the underlying basis for our success over the years.

What about your specific corporate identity?

We've put a considerable amount of marketing dollars behind Merrill Lynch's identity and we closely track the impression that name and our over-all corporate image is making with the investing public, with corporations and financial institutions and with local, national and international officials. We do that because as a marketing-oriented company we believe that the strength of a corporate identity has a direct effect on how well we can market our products and services to our customer base.

Can a company that is poorly perceived be seen as marketing a good product or service?

A company with a poor perception is going to have a tough time in being successful with a good product, particularly if it's a company that has the reputation of not standing behind its products. And yet, if they do develop an outstanding product and can build on that, they have a chance of changing that basic perception. But it's certainly much easier for a well-perceived company to market a new product successfully.

How broadly can a corporate name be used to embrace divergent new products? Aren't many corporate names somewhat limiting in that they've come to stand for specific competence; for example, Merrill Lynch as a seller of stocks and bonds?

As a contrary example, take the Merrill Lynch Cash Management Account. It's one of the great identity success stories over the last ten years. We now have 1.3 million CMA accounts with more than $135 billion in total customer assets. The CMA concept grew out of a strategic decision to alter our strategy in consumer markets—to shift away from being transaction-oriented to being marketing-oriented, in that we wanted to gather our customer's assets under the Merrill Lynch umbrella and advise them on how to invest those assets based on their individual needs. That's why we changed the description of our people from "account executives" to "financial consultants," to better describe their function.

The success of the CMA program demonstrated that our clients want their funds gathered in one place and that they trusted us to advise them properly. Also important to its success was that our sales people knew how to market the idea of a Merrill Lynch CMA. Other financial institutions have tried to crack that market, but they haven't made a dent. We got there first, stuck with it, took a leadership role and—let me underline the importance of this—kept improving it. And it was always identified as a Merrill Lynch product.

Talking about marketing, has the term "financial supermarket" fallen by the wayside?

Perhaps it has, if by that you thought of a customer wheeling a financial shopping cart and taking a mutual fund off one shelf, an insurance policy off another shelf, and so on. We liked to think of it more as a financial department store, where if you wanted the finest quality you could go to the top floor for tailor-made advice, or if you only wanted execution you could go to another department that just handled that. But with deregulation and increased competition and the way the world was changing so rapidly, we determined that we couldn't be all things to all people. So we decided to concentrate on our core businesses that also have a global reach.

You used to describe Merrill Lynch as a three-legged stool, comprising securities, insurance and real estate. But now as you move out of real estate, what about the future use of the Merrill Lynch name in the real estate business?

We sold off 23 percent of our residential real estate business in a master limited partnership, Fine Homes International, and we will eventually dispose of the rest. We found the cultures and backgrounds of the real estate and the securities businesses were far different, and although the business was profitable, it wasn't quite a strategic fit. The Merrill Lynch name will continue to be used for several years after we divest the business, but it will be phased out.

Let's turn to the subject of corporate identity abroad.

Merrill Lynch is acknowledged as the leading American investment firm in Japan, but there are other countries where you're not No. 1.

Do you market differently in those situations?

You bet we do. The name of the game in the financial services industry today is globalization. We're committed to being a major player in that competitive arena. But one of the things you learn quickly is that you must learn to play by the rules within a given market. Subtleties, nuances, styles and protocols all come into play. As far as Japan is concerned, we started there in 1950 with just one man. And very quietly and steadily we became part of the Japanese business community. If we came in as a thundering herd, it would have been a disaster. But we built up relationships and tried to become a good corporate citizen. All the time we were building on our strong corporate identity.

I'll give you an example of a mistake as well. We had a small but quite successful operation in Singapore. On a visit there, I also paid a call on the Central Bank of Malaysia and I was surprised by the icy reception I received. It seems that one of our rookie account executives was looking for business and had put a little ad in the paper saying he'd be staying at the Malaysia Holiday Inn. But he did so without clearing it with the bank, which was very fussy about such things. That was a violation of protocol. That happened ten years ago and it took us a number of years to repair the damage.

One more point about doing business overseas. Things are changing there, too. On our London office we have a big lighted Merrill Lynch sign complete with the bull. Years ago, we would have been more understated, but in this present era of deregulation and global competition, it's perfectly acceptable. And it's another example of how we capitalize on our corporate identity on a global basis.

Speaking of the bull, it's one of the great corporate symbols of recent times. But for a while you gave it up. How come?

It was a mistake. We began using the bull in 1971, with the now-legendary slogan, "Merrill Lynch is bullish on America." As we became more capital markets-oriented, we felt that being big and brawny wasn't enough. We wanted brains and stability as well. So we refined the bull into a more majestic symbol.

But after many years, our advertising people dropped the bull. The outcry, particularly from our branch system, was loud and clear. So the bull came back, and back it will stay.

sense

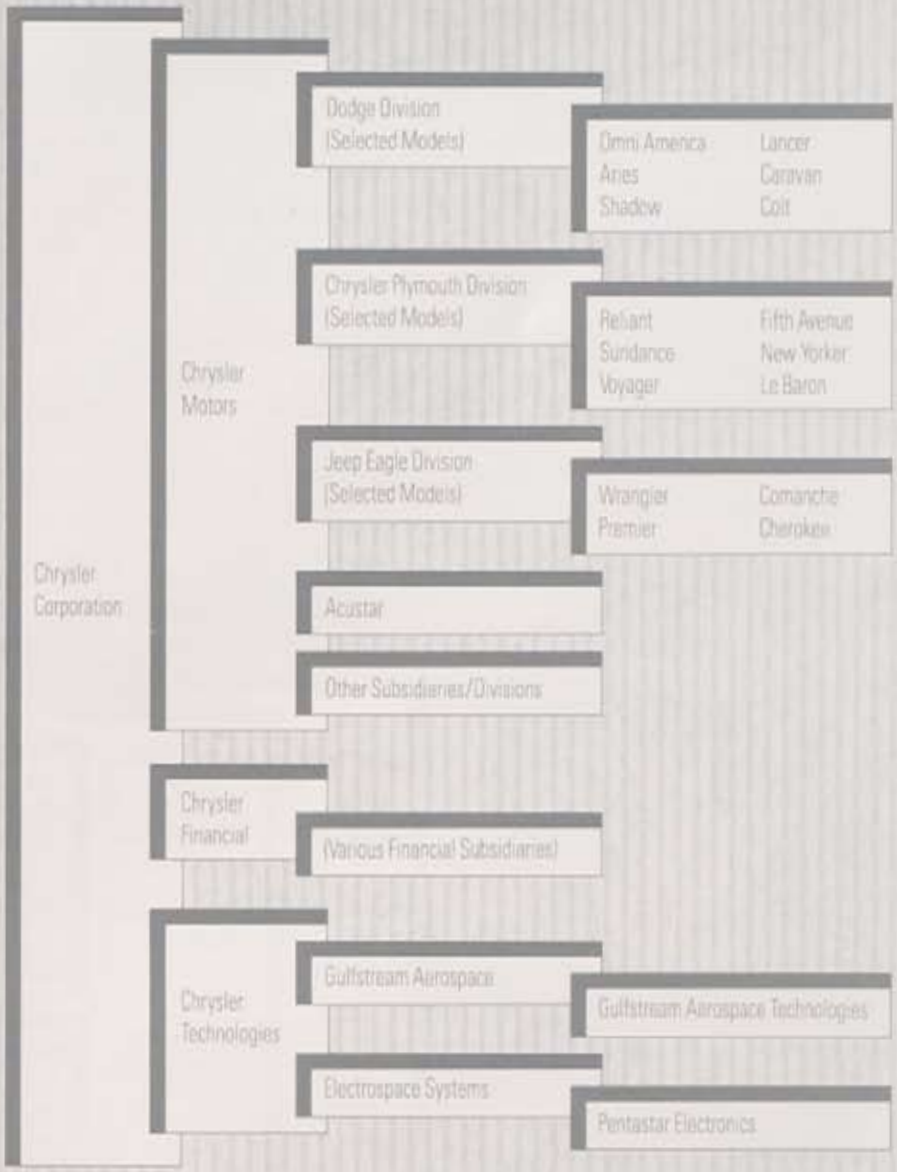
How to achieve competitive advantage? It's simple: differentiate your company and its products and services from all others; operate your business at the lowest possible cost; communicate your achievements to customers, shareholders and employees.

But the question and answer are disarming, somewhat akin to asking, "How do you circumnavigate the world?", and answering, "By sailing round it."

Were it only that easy! The fact is that every aspect of a company's business presents competitive opportunities. Yet surprisingly, while a company's identity has so much to do with success in the marketplace, many firms overlook its power to support and advance marketing and corporate strategies.

On the following pages are three examples of companies that have developed and implemented comprehensive, systematic, corporate identity programs to support their underlying missions and business plans. Since each company is unique, with its own strategy for achieving competitive advantage in its industry, so too is each company's corporate identity strategy. What do they share in common? All are thoughtfully conceived, consistently implemented and aggressively managed.

The Chrysler corporate identity lends prestige to each of its operating divisions, either from the direct use of its name or the indirect use of its world-renowned Pentastar symbol, while not impinging on the brand identities of its many products and services.

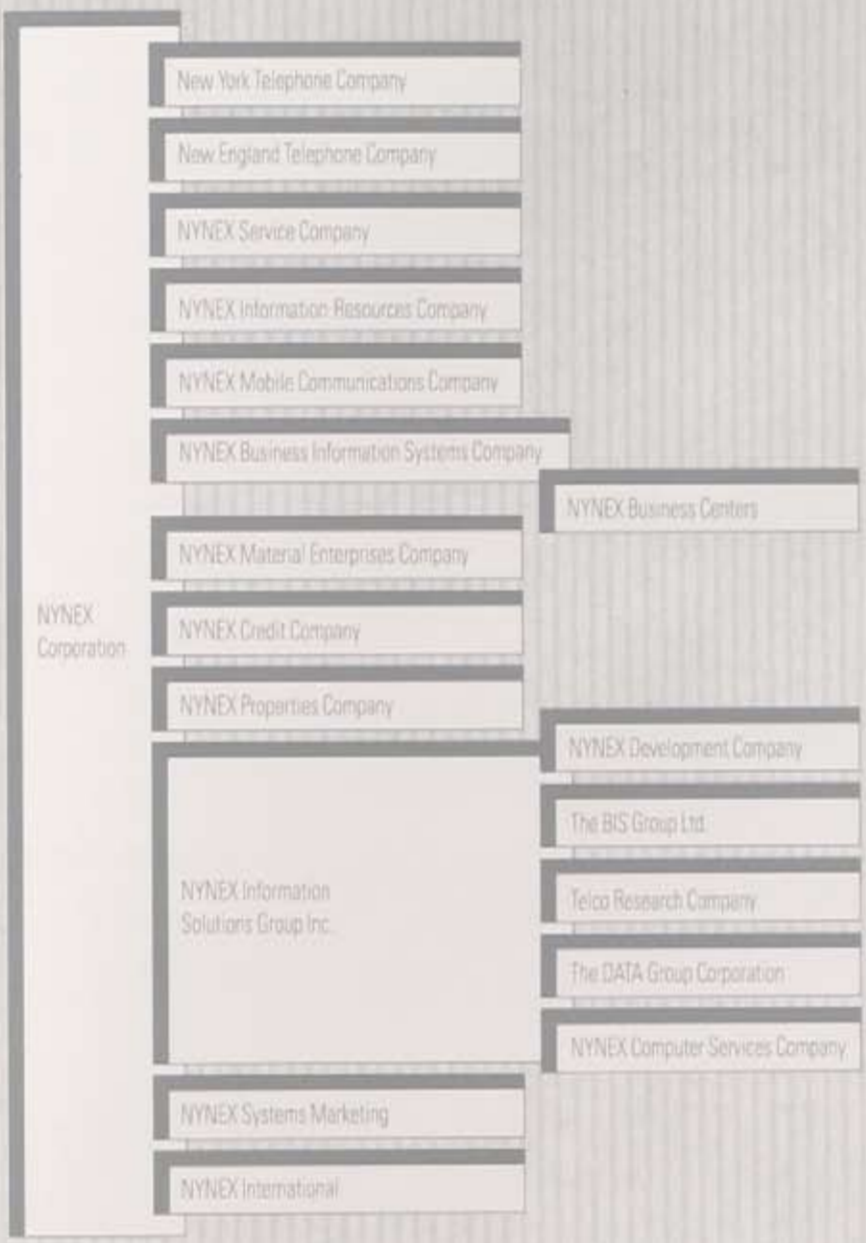


The identification system employed by Chrysler Corporation ensures that the Chrysler identity is linked in a significant manner to the principal brand names the public has come to know. At the same time, the Chrysler name and Pentastar symbol are integral parts of the identity systems of each of Chrysler Corporation's three operating subsidiaries. Chrysler's corporate identity program has broadened awareness of its diverse business units in the investment community, without sacrificing its historic position in the automotive world.

CHRYSLER CORPORATION

Before acquisition by Primerica, each of its subsidiaries had established strong leadership positions in its respective industry. Primerica management determined that each would market its products and services with virtually complete autonomy, freeing the parent company to manage its resources by prudent investment, acquisition and divestiture. This strategy is reflected in Primerica's identity system. Subsidiaries are independently positioned, while the identity of the parent company is reserved for achieving recognition in the investment community, its most important audience.

Each of Primerica's service sector business units retains a strong marketing identity, while the identity of the parent corporation serves as a primary identity for communicating with the investment community.



The NYNEX identity focuses on the consistent use of a single name, reinforcing its visibility and recognition with each application in every market segment.

NYNEX is more than the name of a company. It is a key component of a communications strategy that supports the marketing of a broad range of products and services. The marketing strategy to position and differentiate those products from competitive ones is strongly focused on the NYNEX identity: the awareness and visibility achieved by any one reinforces all others. Today, the NYNEX identity enjoys among the highest level of recognition of the companies that emerged from the divestiture of AT&T.

NYNEX

Here are some of the companies with whom we have been associated since 1945.

AT&T
Acustar
American Express
American/National Can Company
AmeriTrust
Amtrak
Arkwright Mutual Insurance Co.
Atlantic Richfield Company
B.A.T.U.S. Retail Group
Bausch & Lomb
Bonimart
Bowery Savings Bank
Burlington Northern
Caltex Petroleum
Canadian Pacific
Centerior Energy
Chemical Bank
Chevron
Chrysler Corporation
Chuck E. Cheese
Cities Service (CITGO)
Coca-Cola
Comerica
Consolidated Edison
Del Monte
Duracell Inc
Eastern Airlines
Eaton
Enron Corp.
Exxon
Federal Express
Firestone
First Union
Forschner Group
General Motors
Genetics Institute
Genstar
Goldman Sachs
Goldome
Haggar, Inc.
Hardee's
Hartmarx
Hertz
Humana
Infiniti
Integra
Isuzu Motors
Johnson & Johnson
Julien J. Studley
Leslie Fay
Lifetouch
Loeb, Inc.
Marine Midland Bank
Marriott
Mead Johnson
Meritor Financial Group
Midlantic Bank
Monterey House Restaurants
New York Life
Newworld Bank
Nissan
Noxell
NYNEX
Olin
Pacificorp
Papa Gino's
Pathmark
Petro Canada
Pizza Hut
Primerica Corporation
Public Service Company of New Mexico
Public Service Enterprise Group
RCA
Rainier Bank
Ryder System Inc.
Salomon Brothers
SCANA
ServiStar
ShowBiz Pizza Time
Sunoco
TACOTICO
Tambrands
The Standard Oil Company
Triangle Industries
Trustmark
Türkiye İş Bankası A.Ş.
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Union Mutual
Uniroyal
United Technologies
Unocal
UNUM Corporation
Westinghouse Broadcasting
Xerox

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